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AIG Steps Back From ABS CDO Super Seniors

--*Olivia Thetgyi*. **Securitization News**. New York: Apr 3, 2006. pg. 1

Abstract (Summary)

AIG Financial Products has stopped pursuing new business as a counterparty in super-senior tranches of collateralized debt obligations backed by asset-backed securities. The Wilton, Conn.-based subsidiary of insurance giant American International Group was a major counterparty in credit default swaps and total return swaps on super-senior tranches, essentially providing a form of wrap. The change in tack may make selling CDOs more difficult for smaller shops, according to an official at a Street bank.

Full Text (281 words)

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AIG Financial Products has stopped pursuing new business as a counterparty in super-senior tranches of collateralized debt obligations backed by asset-backed securities. The Wilton, Conn.-based subsidiary of insurance giant American International Group was a major counterparty in credit default swaps and total return swaps on super-senior tranches, essentially providing a form of wrap. The change in tack may make selling CDOs more difficult for smaller shops, according to an official at a Street bank.

The step-back follows a big build-up in its book over a short period of time, according to the official. He estimated the firm has taken on about $100 billion of super senior risk since entering the market in 2003, with 50% market share in high-grade ABS CDOs and 30-40% market share in mezzanine transactions. Alan Frost, head of AIG Financial Products' business efforts with U.S. investment banks and structured securities, did not return a call by press time.

Despite some market participant fears the move could throw a roadblock in selling ABS CDOs, monolines and European banks have stepped in in recent weeks to take up the slack, according to Laura Schwartz, senior managing director at ACA Capital. And while individual monolines may not be able to take on all the super senior risk, some banks are working with multiple monolines, noted Lirenn Tsai, executive director at UBS, speaking on a panel at Information Management Network's CDO/credit derivatives summit last week. The other bank official noted his firm has turned to mostly derivatives to deal with the risk, although he declined to describe those instruments.

Indexing (document details)

Subjects:	Collateralized debt obligations, Securities industry, Subsidiaries, Financial services
Classification Codes	9190, 8130
Locations:	United States, US
Companies:	AIG Financial Products Corp (**NAICS:** 523930)
Author(s):	--Olivia Thetgyi
Document types:	News
Section:	*Top Stories*
Publication title:	Securitization News. New York: Apr 3, 2006. pg. 1
Source type:	Periodical
ISSN:	15444872
ProQuest document ID:	1030144931

Text Word Count	281
Document URL:	http://proquest.umi.com/pqdweb?did=1030144931&sid=2&Fmt=3&clientId=13371&RQT=309&VName=PQD

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